

SUBJECT: Continuing the Texas Leverage Fund program; modifying administration

COMMITTEE: Economic and Small Business Development — committee substitute recommended

VOTE: *After Recommitted:*
7 ayes — Button, Bailes, Deshotel, Hinojosa, Leach, Metcalf, Ortega

0 nays

2 absent — Vo, Villalba

WITNESSES: *April 13 Hearing:*
For — (*Registered, but did not testify:* Rick Hardcastle, BDC of Vernon; Carlton Schwab, Texas Economic Development Council)

Against — None

On — Bryan Daniel, Office of the Governor-Economic Development and Tourism Office

BACKGROUND: The Texas Economic Development Bank fund is a dedicated account in the general revenue fund. Government Code, sec. 489.105 specifies that this fund consists of various investment earnings, economic development-related appropriations and fees, and any other amounts received by the state for the Texas Economic Development Bank fund.

10 TAC, part 5, chap. 181 establishes the Texas Leverage Fund program administered by the Office of the Governor's Economic Development and Tourism (EDT) Office, which issues loans to Economic Development Corporations (EDCs) to finance eligible projects.

The life of the Texas Leverage Fund program will expire in 2022 if not continued in statute. Some have suggested that uncertainty prevents loans from being issued now because their maturity dates would be after 2022.

DIGEST: CSHB 3772 would establish the Texas Leverage Fund as a trust fund held outside the state treasury by the comptroller, who would act as a trustee. The fund would consist of proceeds from issuance of bonds, loan payments and origination fees, investment earnings, and any other money received by the Texas Economic Development Bank.

The Texas Leverage Fund could be used only:

- to make loans to economic development corporations for eligible projects;
- to pay the bank's necessary and reasonable costs and fees associated with administering the program;
- to pay the principal and interest on bonds;
- for authorized reinvestment by the comptroller; or
- for any other purpose authorized by statute.

CSHB 3772 would authorize the Texas Economic Development Bank, the Economic Development and Tourism (EDT) Office, or the office's successor agency to issue, sell, and retire bonds to provide funding for economic development purposes. The executive director of EDT would oversee the format, terms, and rates of these loans. However, the bill would prohibit the director from issuing a loan with a term longer than 40 years or an interest rate greater than the maximum annual interest rate of 15 percent.

The bill would allow the executive director of EDT to make certain agreements contained in instruments securing bonds. The director could not incur a pecuniary liability or charge against the general credit of the state, office, or bank.

CSHB 3772 would retroactively validate the acts of the comptroller, EDT, and Texas Economic Development Bank relating to the administration of the Texas Leverage Fund program, excluding misdemeanors, felonies, or a matter that has been held invalid by a final judgment of a court.

This bill would take immediate effect if finally passed by a two-thirds

record vote of the membership of each house. Otherwise, it would take effect September 1, 2017.

NOTES:

CSHB 3772 was reported favorably by the House Economic and Small Business Development Committee on April 18, placed on the general state calendar for May 4, recommitted to committee, and reported favorably again on May 5.

According to the Legislative Budget Board, the bill would have a negative impact of \$4.2 million to general revenue related funds for fiscal 2018-19. While the bill itself would not make any appropriation, it could provide a legal basis for an appropriation of funds.